

BEFORE  
THE PUBLIC SERVICE COMMISSION  
OF SOUTH CAROLINA  
DOCKET NO. 2011-158-E - ORDER NO. 2012-517  
JULY 11, 2012

IN RE: Application of Duke Energy Corporation and	)	ORDER APPROVING
Progress Energy, Inc. on Behalf of Their	)	JOINT DISPATCH
Electrical Utility Subsidiaries, Duke Energy	)	AGREEMENT
Carolinas, LLC and Progress Energy	)	
Carolinas, Inc. to Engage in a Business	)	
Combination Transaction	)	

**I. INTRODUCTION**

Pursuant to S.C. Code Ann. § 58-27-1300 (Supp. 2011) and S.C. Code Ann. Reg. 103-823, on April 25, 2011, Duke Energy Corporation (“Duke”)<sup>1</sup> and Progress Energy, Inc. (“Progress”)<sup>2</sup> (collectively referred to as “the Applicants”), on behalf of their utility subsidiaries Duke Energy Carolinas, LLC (“DEC”) and Progress Energy Carolinas, Inc. (“PEC”), applied to the Public Service Commission of South Carolina (“the Commission”) for approval of the merger of DEC and PEC, and approval of a joint dispatch agreement (“JDA”).<sup>3</sup> In their Application, the Applicants explained that Duke and Progress have entered into a business combination

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<sup>1</sup>Duke is a corporation organized and existing under the laws of the State of Delaware. Duke is the sole owner of DEC. DEC is an electric public utility organized, existing and operating under the laws of the State of North Carolina, and is authorized to generate, transmit and distribute electric power in its service territory in North Carolina and South Carolina.

<sup>2</sup>Progress is a corporation organized and existing under the laws of the State of North Carolina. Progress is the sole owner of PEC. PEC is an electric public utility organized, existing and operating under the laws of the State of North Carolina and is authorized to generate, transmit and distribute electric power in its service territory in North Carolina and South Carolina.

<sup>3</sup> This present Commission Order necessarily reflects the ruling made by the Commission on the basis of the record before it as of 11:30 a.m. on July 2, 2012, when the Commission vote on this Application was taken, and does not address any events occurring subsequent to that ruling.

agreement (“the Merger Agreement”) pursuant to which Duke will acquire all of the issued and outstanding common stock of Progress in exchange for shares of Duke’s common stock.<sup>4</sup> (Hereinafter the proposed merger of Duke and Progress shall be referred to as “the Merger”.)

As part of the parties’ presentation of evidence to this Commission at hearing on December 12, 2011, we heard testimony concerning the Merger of Duke Energy Corporation and Progress Energy, Incorporated. Based on the record before us, there is an absence of harm to South Carolina ratepayers as a result of the proposed Merger. Therefore, we do not have to reach the question of whether such harm, if present, would have justified jurisdiction of this Commission over the Merger to the extent necessary to address such harm to this state’s ratepayers.

Under the terms of the Merger Agreement, Progress shareholders will receive 2.6125 shares of Duke common stock for each share of Progress common stock they own upon the closing of the transaction. This exchange ratio will be adjusted to 0.87083 shares of Duke stock for each Progress share, to account for a one-for-three reverse stock split to be effected by Duke in connection with the closing of the transaction, as further described in the Merger Agreement. The combined company will maintain the name of Duke Energy, with corporate headquarters in Charlotte, North Carolina. Progress will become a subsidiary of Duke, and both Progress and PEC will continue to exist as separate legal entities.

Subject to approval by the appropriate regulatory commissions, PEC and DEC plan to merge into a single legal entity at some point in the future; however, such merger will not occur until numerous aspects of the utilities’ operations are addressed, including but not limited to

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<sup>4</sup> Progress common stock owned by Duke or Progress (other than in a fiduciary capacity) will not be included in the exchange. Such stock will automatically be canceled and retired.

determination of best business practices, operating procedures, equipment specifications, uniform rate schedules, service regulations, and computer systems.

Pursuant to the JDA, PEC will transfer operational control of its generating assets to DEC. The combined DEC and PEC generating assets would then be jointly dispatched to serve the combined load of DEC and PEC in the most cost effective manner possible.

Intervenors in the proceeding included the Southern Alliance for Clean Energy, the Environmental Defense Fund, the South Carolina Coastal Conservation League (collectively “the Environmental Intervenors”), South Carolina Electric & Gas Company (“SCE&G”), Nucor Steel-South Carolina (“Nucor”), the City of Orangeburg, the South Carolina Energy Users Committee (“SCEUC”), Central Electric Power Cooperative, Inc., the Electric Cooperatives of South Carolina, Inc., and the International Brotherhood of Electrical Workers (“IBEW”). The South Carolina Office of Regulatory Staff (“ORS”) was a party pursuant to S.C. Code Ann. § 58-4-10 (Supp. 2011).

By letter dated September 13, 2011, the Applicants notified the Commission that they were withdrawing their Application for approval of the merger of DEC and PEC. The Applicants stated that it was premature to be seeking such approval given that the actual merger of the two utilities would not occur for several years. ORS and the intervenors did not oppose the withdrawal of the Application for approval of the merger of PEC and DEC.

A hearing in this matter was initially scheduled to begin October 26, 2011, with the Applicants’ direct testimony to be filed by September 14, 2011. On September 14, 2011, the Applicants filed the joint testimony of James E. Rogers and William D. Johnson, and the testimonies of Lynn J. Good, Dr. Joseph P. Kalt, and Alexander J. (Sasha) Weintraub.

On October 4, 2011, ORS, Central Electric Power Cooperative and the Electric Cooperatives of South Carolina, Inc. filed a joint motion to hold the hearing and procedural schedule in this matter in abeyance until the Federal Energy Regulatory Commission (“FERC”) ruled upon a market power mitigation proposal that FERC required the Applicants to file as a condition of FERC merger approval. On October 10, 2011, DEC and PEC filed a response to the joint motion to hold the proceeding in abeyance. DEC and PEC did not oppose the joint motion, but requested that the Commission reschedule testimony filing dates and the hearing in this matter as soon as possible after the filing of the Applicants’ mitigation proposal with FERC. The Commission granted the motion to hold the hearing and procedural schedule in abeyance.

On October 24, 2011, ORS, Central Electric Power Cooperative and the Electric Cooperatives of South Carolina, Inc. filed a joint motion to establish a new procedural schedule. By Order No. 2011-816, issued November 2, 2011, the Commission: granted the motion to establish new testimony filing dates and hearing date; rescheduled the hearing to begin December 12, 2011; required DEC and PEC to file supplemental testimony on November 10, 2011, to discuss the market power issues raised by FERC in its September 30, 2011, order conditionally approving the Merger, and explaining DEC’s and PEC’s market power mitigation proposal filed with FERC in response; and scheduled intervenor, rebuttal, and surrebuttal testimony to be filed November 17, 2011, November 30, 2011, and December 7, 2011, respectively.

Pursuant to Commission Order No. 2011-816, DEC and PEC filed the supplemental testimony of Alexander J. Weintraub on November 10, 2011. On November 17, 2011, the ORS filed the direct testimony of Jonathan Falk, the City of Orangeburg filed the direct testimony of John Bagwell, and the Environmental Intervenors filed the direct testimony of Richard Hahn.

DEC and PEC filed the joint rebuttal testimony of James E. Rogers and William D. Johnson and the rebuttal testimonies of Lynn J. Good, Alexander J. Weintraub, and Dr. Joseph P. Kalt on November 30, 2011. On December 8, 2011, the Environmental Intervenors and the Applicants entered into a Settlement Agreement which was submitted to this Commission for approval. Concurrently, the Environmental Intervenors withdrew the testimony of Richard Hahn. Also, on December 8, 2011, in response to the Environmental Intervenors' withdrawal of the testimony of Richard Hahn, DEC and PEC withdrew the rebuttal testimony of Lynn J. Good and filed the revised joint testimony of James E. Rogers and William D. Johnson, and the revised testimonies of Alexander J. Weintraub and Dr. Joseph P. Kalt.

The hearing on this matter commenced as scheduled on December 12, 2011. At the hearing, Len S. Anthony and Kendal C. Bowman represented PEC. Kodwo Gharthey-Tagoe and Frank R. Ellerbe, III represented DEC. Courtney D. Edwards and Nanette S. Edwards represented the ORS. Christopher R. Koon, Douglas Jennings, Jr., and John H. Tiencken represented Central Electric Power Cooperative, Inc. and the Electric Cooperatives of South Carolina, Inc. James N. Horwood and Pablo O. Nuesch represented the Department of Public Utilities of the City of Orangeburg. Gudrun Elise Thompson and J. Blanding Holman IV represented the Environmental Intervenors. Michael K. Lavanga and Robert R. Smith II represented Nucor. K. Chad Burgess represented SCE&G. Scott Elliott represented SCEUC.

On December 13, 2011, the Applicants submitted a letter to the Commission to memorialize the stipulation and commitment made by the Applicants during the hearing held December 12, 2011. The letter stated that, as a condition for Commission approval of the proposed JDA between DEC and PEC, DEC and PEC will provide the Commission a "most

favorable nations" commitment. Among other things, the "most favorable nations" commitment guarantees this Commission and DEC's and PEC's retail customers pro rata benefits equivalent to those approved by the North Carolina Utilities Commission in its order ruling upon Duke Energy Corporation's and Progress Energy, Inc.'s Merger Application. The December 13, 2011, commitment letter is attached to this order as Appendix A.

On December 14, 2011, the FERC issued an Order in which it found the Applicants' proposed market power mitigation plan was inadequate to address the wholesale market power concerns raised in the FERC's September 30, 2011, Order. On that same date, the FERC also issued an Order dismissing the Applicants' Application for approval of the JDA without prejudice to the Applicants' right to file revised proposals.

The Commission initially scheduled the filing of proposed orders for December 20, 2011. DEC, PEC, the ORS, Central Electric Power Cooperative, Nucor Steel-South Carolina and the Electric Cooperatives of South Carolina, Inc. filed a Joint Proposed Order. The City of Orangeburg also filed a Proposed Order.

On January 12, 2012, PEC and DEC filed with the Commission a letter containing a status report of the Merger activities before the North Carolina Utilities Commission ("NCUC") and FERC. On February 22, 2012, PEC and DEC filed with the Commission a copy of the advance notice filed with the NCUC notifying the NCUC that Progress and Duke would be filing a Revised Market Power Mitigation Plan with FERC upon the expiration of the notice period. On March 26, 2012, PEC and DEC filed with the Commission the Revised Market Power Mitigation Plan that was filed with FERC that same date. The Revised Market Power

Mitigation Plan was filed by Progress and Duke pursuant to the FERC's December 14, 2011, Order.

On May 16, 2012, PEC and DEC filed with the Commission a letter advising the Commission that PEC and DEC had made certain commitments to the ORS with regard to the Revised Market Power Mitigation Plan filed with FERC on March 26, 2012. The first commitment relates to the allocation of costs associated with interim wholesale mitigation power sales to be made by PEC and DEC for approximately 3 years following the close of the Merger. The letter described the methodology to be used to allocate costs to these sales and the calculation of a decrement rider to be filed by PEC and DEC to their retail South Carolina rates within 30 days after the Merger closes to provide their South Carolina retail customers the benefit of this allocation of costs away from retail to these wholesale sales. The second commitment relates to the permanent transmission market power mitigation element of the Revised Market Power Mitigation Plan. PEC and DEC committed not to seek recovery of any of the costs associated with certain new transmission facilities constructed to mitigate the merged company's wholesale market power from their South Carolina retail customers for a period of five years following the closing of the Merger. After five years, PEC and DEC may seek recovery of these transmission costs from their South Carolina retail customers if they can show that, absent the Merger, the transmission facilities are needed to provide adequate and reliable retail service and the construction of the facilities and incurrence of the costs would have been reasonable and prudent. The letter's third commitment was a re-affirmation of their commitment and guarantee, described during the December 12, 2011, hearing, and summarized in the utilities' December 13, 2011, letter filed with the Commission, to provide their retail

South Carolina customers pro rata benefits equivalent to those approved by the North Carolina Utilities Commission in its order ruling upon Duke's and Progress' Merger Application. The May 16, 2012, commitment letter, along with the clarifying letter of May 21, 2012 referenced below, are attached to this order as Appendix B.

On May 21, 2012, PEC and DEC filed a follow-up letter explaining that nothing that had occurred in the NCUC Merger proceeding and none of the commitments contained in the May 16, 2012, letter to the Commission alter or affect the JDA. *See* Appendix B. The May 21, 2012, letter also clarified that the costs associated with the interim wholesale market power sales would be allocated to those specific wholesale transactions and not PEC's and DEC's wholesale jurisdiction as a whole.

By Order No. 2012-425, on May 23, 2012, the Commission ordered the parties to this proceeding to file verified testimony by June 4, 2012, concerning the developments regarding the Merger occurring subsequent to the December 12, 2011, hearing. The Commission asked the parties to address, in particular, activities and filings before the NCUC and FERC. Responses to such testimony were to be filed by June 11, 2012. The Commission further ruled that it would decide on June 13, 2012, whether further hearings in this docket were required. On June 4, 2012, PEC and DEC filed the additional direct testimony of Sasha Weintraub. On June 11, 2012, the ORS, Central Electric Power Cooperative and the Electric Cooperatives of South Carolina, Inc., filed letters in support of approval of the JDA on a one year trial basis.

On June 8, 2012, FERC approved the JDA, PEC's and DEC's Joint Open Access Transmission Tariff, and the Merger of Progress and Duke, with certain conditions, and provided that certain revisions be made to the JDA. On June 12, 2012, PEC and DEC filed with



the Commission a revised JDA reflecting the changes required by FERC. In the transmittal letter, PEC and DEC explained that the revisions do not impact any of the potential savings to be realized from the joint dispatch of PEC's and DEC's generation facilities, or otherwise harm South Carolina retail customers. On June 13, 2012, PEC and DEC filed the verified testimony of Sasha Weintraub, explaining the revisions to the JDA and affirming that such changes do not harm South Carolina retail customers or reduce the benefits to be derived from joint dispatch.

On June 13, 2012, by Order No. 2012-473, the Commission ordered that any responses to the revised JDA or the verified testimony of Sasha Weintraub had to be filed by June 15, 2012. The Commission further held that no further hearings were necessary and that proposed orders were to be filed on June 22, 2012. The only filing made by any party on June 15, 2012, was a filing by the ORS stating that they had no further comments. A Joint Proposed Order was filed on June 22, 2012, by DEC, PEC, the ORS, Nucor Steel-South Carolina, Central Electric Power Cooperative and the Electric Cooperatives of South Carolina, Inc. A Proposed Order was also filed on June 22, 2012, by the Intervenor, City of Orangeburg.

## **II. DISCUSSION**

### **A. FERC APPROVAL OF THE MERGER AND JDA**

As explained in the supplemental pre-filed testimony of Applicants' witness Weintraub, on September 30, 2011, FERC conditionally approved the Merger of Progress and Duke. However, FERC found "screen failures" with respect to the market for short-term energy during the summer and winter periods in the DEC Balancing Authority Area ("BAA") and the summer period in the PEC East BAA. A "screen failure" means that the increase in the concentration of ownership of short-term energy resulting from the Merger exceeds certain thresholds

established by FERC. As a result, FERC required PEC and DEC to submit a mitigation proposal to eliminate any potential for the exercise of market power by PEC and DEC during these periods. Tr. pp. 150-152.

The Applicants submitted a market power mitigation proposal that required PEC and DEC to offer to sell for resale in their BAAs a certain amount of excess generation during these time periods. PEC would be required to offer to sell all excess generation up to 500 MWs during the summer months. DEC would be required to offer to sell excess generation up to 300 MWs during the summer months and 225 MWs during the winter months. The price at which this excess generation would be sold would be the average incremental cost of the generation plus 10%. PEC and DEC would offer this energy on a daily basis. The proposed term of the mitigation proposal was eight years. Under the proposed mitigation plan, both PEC and DEC would be allowed to cancel any sale made if PEC or DEC needed that generation to reliably meet its retail or native load firm wholesale customers' needs. Tr. pp. 152-153.

By Order issued on December 14, 2011, FERC found the Applicants' Market Power Mitigation Proposal to be inadequate and afforded the Applicants an opportunity to file a revised, more comprehensive, market power mitigation plan in order to obtain unconditional FERC approval of the Merger and JDA. In his Additional Direct Testimony filed on behalf of PEC and DEC on June 4, 2012, pursuant to the Commission's Order No. 2012-425, Mr. Weintraub explained that on March 26, 2012, in response to FERC's December 14, 2011, Order, the Applicants filed a Revised Mitigation Proposal with FERC. The Revised Mitigation Proposal had two elements: an interim mitigation component that involved the sale of capacity and energy to third party wholesale market participants; and a permanent mitigation component

that involved the construction of new transmission facilities. As proposed, the interim mitigation sales would terminate once all of the new transmission facilities had been constructed and placed into service.

The interim mitigation sales were proposed in recognition of the fact that, until the permanent transmission expansion projects are placed in service, FERC's market power concerns would continue. DEC and PEC have entered into firm power sales agreements ("PSAs") with Cargill, Electricite de France (EDF), and Morgan Stanley to effectuate the interim mitigation sales. The energy sold pursuant to the PSAs will be firm in all hours of those seasons when mitigation is required. There are no restrictions on the use of energy by the purchasers after it is purchased. Any interruption of deliveries of energy by DEC or PEC will result in the payment of liquidated damages if the contract price of power to be sold is below the market unless that interruption is excused on *force majeure* grounds.

Mr. Weintraub testified that sales under the PSAs will commence the first day after the Merger is closed. The term of each of PEC's PSAs will extend through August 31, 2014. The term of DEC's PSA will extend through February 28, 2015. These dates ensure that the interim mitigation will be in place until the permanent mitigation transmission expansion projects are expected to be completed.

Mr. Weintraub then explained that the Applicants' permanent mitigation proposal consists of the construction of seven transmission expansion projects in order to increase transmission import capability into the PEC East and DEC BAAs. The projects provide permanent structural mitigation of FERC's market power concerns. In addition to these seven

projects, PEC is accelerating the in-service date of PEC's already-planned Greenville – Kinston DuPont 230 kV Line from 2017 to 2015.

According to Mr. Weintraub, these transmission expansion projects completely mitigate all market power issues in the DEC BAA, and also completely mitigate all market power issues in the PEC East BAA except for the Summer Off-Peak in the Base Case. To address this single screen failure, DEC and PEC indicated they were willing to agree to set-aside a portion of the expanded transmission capacity from the DEC BAA to the PEC East BAA. Under this proposal, only unaffiliated third parties would be permitted to reserve the set-aside amount on a firm basis. This set-aside would ensure that DEC and PEC would not have access to the set-aside amount of transmission capacity into the PEC East BAA from the Duke BAA on a firm basis, and thereby would fully mitigate the one small screen failure remaining after the transmission projects are completed.

Finally, Mr. Weintraub testified that DEC and PEC proposed that three aspects of the Revised Mitigation Proposal be subject to monitoring by Potomac Economics as an independent monitor. First, Potomac Economics would monitor the PSAs to ensure they remain in effect until the transmission expansion projects are complete. If any of the PSAs terminated prior to completion of the transmission projects, Potomac Economics would monitor whether such PSA is replaced with a new PSA under materially the same terms and conditions. Second, Potomac Economics would monitor the extent to which the Applicants are pursuing the transmission expansion projects within the scope and time frame projected and will report to FERC when the projects have been completed and placed in service. Third, if FERC requires PEC or DEC to

set aside portions of the enhanced transmission capability created by these projects, Potomac Economics would monitor the Applicants' compliance with such a transmission use limitation.

As referenced above, by letter filed with the Commission by PEC and DEC on May 16, 2012, PEC and DEC advised the Commission of certain commitments made by PEC and DEC to the ORS with regard to the Revised Mitigation Proposal. The May 16, 2012, letter, along with the clarifying letter of May 21, 2012, are attached as Appendix B to this Order. In this letter, PEC and DEC stated that the costs of the generation capacity used to effectuate the interim mitigation wholesale sales will be allocated to these sales. The capacity costs will be calculated based upon the revenue requirement associated with a utility-specific proxy for the capacity costs of the generating facilities expected to be on the margin during the months and hours the sales will be made, which are assumed to be between July 1, 2012, through May 31, 2015. DEC and PEC will each develop a decrement rider to their respective South Carolina retail rates that reflects these capacity costs. DEC and PEC will file the decrement riders for approval with the Commission and provide a copy to ORS within 30 days after the Merger closes. Upon approval by the Commission, the decrement riders will be fixed and remain in effect and without any future true-ups until the date the interim market power mitigation sales terminate plus the number of days between when such sales began and the time the decrement riders became effective. Provided, however, that if a portion of the interim sales terminate, the riders shall be reduced in proportion to the terminated sales. Appropriate decrement riders will continue in effect until such time as the utilities are relieved of their respective obligations to

make the interim mitigation sales. The total system costs of capacity to be allocated away from retail are \$43,458,315 for DEC and \$21,194,759<sup>5</sup> for PEC.

DEC and PEC further committed not to seek to recover from their South Carolina retail customers any of the non-fuel variable operating and maintenance costs associated with the interim mitigation sales. They further committed not to seek to recover from their South Carolina retail customers any revenue shortfalls resulting from, or any costs associated with, the interim mitigation sales (including but not limited to any negative capacity payments), any revenue deficiency resulting from energy revenues being less than the associated costs and any payment of liquidated damages.

With regard to the permanent transmission mitigation plan, DEC and PEC committed not to seek recovery of any costs associated with the transmission projects in their respective South Carolina retail rates until the expiration of five (5) years following the close of the Merger, and any such request must include a showing that, absent the Merger and the resulting mitigation requirement, the project is needed to provide adequate and reliable retail service and, at the time the request is made, the construction of the project and the incurrence of the associated costs would have been reasonable and prudent. These cost recovery prohibitions do not apply to the Greenville-Kinston-DuPont transmission line project because PEC is simply accelerating the construction of this project.

Finally, DEC and PEC committed not to seek to recover from their South Carolina retail ratepayers any costs associated with running their generating systems on a non-economic basis as a result of their permanent transmission market power mitigation plan to run PEC's Roxboro

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<sup>5</sup> The DEC and PEC South Carolina retail allocable portion would be \$10,316,657 for DEC and \$2,283,121 for PEC.

and Mayo units at full output when necessary to push back against AEP/PJM power flows into PEC in order to achieve improvement in firm import capability from PJM into PEC-East.

The commitments made by DEC and PEC regarding the Revised Mitigation Proposal are the same as those made to the NCUC. The Commission finds that these commitments properly protect and hold harmless DEC's and PEC's South Carolina retail customers and are approved. DEC and PEC shall comply with and implement these commitments as described in Appendices A and B.

As discussed more thoroughly below, the May 16, 2012 letter also re-affirms DEC's and PEC's commitment and guarantee to provide their retail South Carolina customers pro rata benefits equivalent to those approved by the NCUC in its order ruling upon the Merger Application.

**B. MOST FAVORED NATIONS STIPULATION AND BENEFITS OF THE MERGER**

During the hearing DEC and PEC made the following commitment and stipulation:

As a condition for Commission approval of the proposed JDA between PEC and DEC, PEC and DEC will provide the Commission a "most favored nations" commitment and will also agree to the ORS proposal for approval of the JDA on a one year trial basis. The "most favored nations" commitment guarantees this Commission and PEC's and DEC's South Carolina retail customers pro rata benefits equivalent to those approved by the North Carolina Utilities Commission ("NCUC") in its order ruling upon Duke Energy Corporation's and Progress Energy, Inc.'s Merger Application.

Tr. pp. 119-120. We also note that, to the extent allowed by South Carolina law, the "most favored nations" commitment extends the protections of the revised Regulatory Conditions and Code of Conduct adopted by the North Carolina Utilities Commission in its June 29, 2012, Order approving the Merger to the South Carolina ratepayers of DEC and PEC. Tr. p. 119.

Although the Commission's focus in this proceeding is on whether the JDA should be approved, the Commission received extensive evidence on the Merger as well. The Applicants' witnesses Rogers, Johnson, and Good testified that the combined company will be the largest regulated utility in the United States, which will possess the size and scale, diversification, and operational excellence to be the foremost utility in the industry. This will translate into continued financial strength and flexibility for dealing with circumstances such as changing regulatory requirements, volatility in the capital markets, economic downturns, as well as other external influences. Tr. pp. 25, 46-47. Witnesses Rogers, Johnson, and Good advocated that the Merger will produce significant benefits for PEC's and DEC's South Carolina customers. Tr. pp. 26-27, 47.

The witnesses further testified that, post-merger, Duke will maintain strong investment-grade credit ratings. Both Moody's and S&P reviewed the proposed transaction and affirmed the credit ratings of the combined company and its subsidiaries on the date of the Merger announcement. Size, scale, and financial strength are important to investors in the utility industry and will support the combined company's ability to attract capital on favorable terms, which is a clear benefit to customers. Investors will also benefit from more stable returns resulting from a higher proportion of the combined company's operations being regulated businesses. For the year ended December 31, 2010, approximately 79% of Duke's business was regulated, while post-merger regulated operations of the combined company will be 88% of its business. Tr. pp. 25, 47.

Witnesses Rogers, Johnson, and Good testified that the combined company will have greater assurance of access to capital, especially in challenging or volatile market conditions.



Upon the close of the Merger, according to testimony, S&P's 'CreditWatch' with positive implications designation is expected to result in an upgrade to the new company's A- corporate credit rating for Progress, PEC, and Progress Energy Florida. Such an upgrade would provide additional benefit to Progress' customers by providing greater access to debt financing as well as a lower cost of debt than would otherwise be possible. Tr. pp. 25, 47.

Witnesses Rogers and Johnson testified that the utility industry faces an extended period of extremely large investments in infrastructure replacement, modernization, and expansion. In order to meet the future demand for electricity, these witnesses testified that both companies will have to invest in new generation that will be more costly than the companies' current average embedded costs. PEC and DEC are well into this intense capital investment program. PEC is investing nearly \$2 billion in new natural gas fueled generation. DEC is investing over \$3 billion in new clean coal generation and natural gas fueled generation. Much of this generation is simply replacing aging plants that the utilities have concluded are no longer cost effective to operate. The companies also face significant cost increases in order to comply with new proposed Environmental Protection Agency regulations and Nuclear Regulatory Commission regulations. The resulting large infrastructure investment creates two challenges: 1) raising, on reasonable terms, the capital necessary to finance the plant additions; and 2) minimizing the costs to customers from building and operating these new plants. According to witnesses Rogers and Johnson, the Merger will allow them to address both of these challenges and to mitigate potential impacts. Tr. p. 25.

Witnesses Rogers and Johnson emphasized that an important operational benefit of the Merger is centralized management of the two companies' nuclear fleets. Duke operates seven

nuclear units, and Progress operates five. Eleven of these 12 nuclear units are in the Carolinas—a geographic proximity that further strengthens the benefits of operating as one large nuclear fleet and particularly supports the combination of these two companies. Additionally, the witnesses stated that the depth and breadth of the combined nuclear management team and workforce is expected to enhance the combined company's ability to operate these plants safely, reliably, and cost effectively. Tr. p. 26.

The Applicants anticipate that, upon the actual integration of Duke's and Progress' service companies, additional cost savings opportunities will be created. This integration transition is expected to be a significant undertaking, and these savings will occur over time as a result of the combination and assimilation of the companies' information technology systems, supply chain functions, generation operations, corporate and administrative programs, and inventories. The Application indicates that there will be up-front costs associated with integrating these functions to yield benefits, but future savings in these areas are expected to be significant. The Applicants testified that customers will receive the benefits of these savings in future rate proceedings. Witnesses Rogers and Johnson emphasized that the synergies and cost savings the Applicants expect to realize over the long term, by merging the two companies' service companies, will help mitigate, to some extent, the cost increases Progress and Duke expect to experience in the future. Tr. p. 26.

The Application explains that the cost savings realized through the integration of the two companies will result in workforce reductions. Over time, Progress, Duke, PEC and DEC expect their combined workforces to be reduced compared to continued operation as unaffiliated companies. To the maximum extent possible, the Applicants commit to manage

these reductions through normal retirements, employee attrition, voluntary retirement programs and similar measures, rather than through forced layoffs.

C. THE JOINT DISPATCH AGREEMENT AND OTHER SAVINGS

Regarding the JDA, the Applicants' witness Weintraub testified that, upon the closing of the Merger, PEC and DEC will begin significant coordination of their operations. These coordinated operations will produce significant operational efficiencies that will directly benefit customers. The primary benefit will result from transitioning individual dispatch of PEC's and DEC's generating assets to combined dispatch via the JDA.

Witness Weintraub testified that, consistent with PEC's and DEC's reliability and contractual obligations as well as applicable laws and regulations, the JDA will allow DEC's and PEC's generation resources to be dispatched as a single system to meet the two utilities' retail and firm wholesale customers' requirements at the lowest reasonable cost. Under the JDA, DEC will act as the joint dispatcher for DEC's and PEC's power supply resources. The joint dispatch process will allow PEC and DEC to serve their retail and wholesale native load customers more efficiently and economically than they can on a stand-alone basis. Witness Weintraub explained that the JDA also provides a methodology for calculating the savings generated by the joint dispatch process and for equitably allocating the savings between DEC and PEC. Tr. pp. 133-134.

According to witness Weintraub, the JDA expressly provides that it is not intended to act as a system integration agreement and that DEC and PEC will retain their obligations to serve their own native load customers, to fulfill their own contractual obligations, and to operate

their own transmission systems and BAAs. DEC's and PEC's contractual obligations will not be changed by the JDA. This includes their contractual obligations under existing wholesale power contracts and their obligations under the Virginia-Carolinas (VACAR) reserve sharing arrangement. Tr. p. 134.

Witness Weintraub explained that the joint dispatcher will direct the dispatch of both DEC's and PEC's power supply resources, which includes the parties' generation as well as their wholesale power purchases. In addition, the joint dispatcher will be responsible for making short-term (less than one year) wholesale power purchases and sales on behalf of DEC and PEC. DEC and PEC will retain individual responsibility for entering into wholesale power transactions of a year or longer. In carrying out its responsibilities under the JDA, the joint dispatcher is charged with achieving the most economic dispatch plan to serve DEC's and PEC's native load customers, consistent with the provision of reliable service, industry standards, and applicable laws and regulations. In effect, the joint dispatcher has the same goals as the individual utilities prior to the advent of the JDA. The difference is that the joint dispatcher will consider the loads and resources of both utilities, which will achieve a more economic result than the utilities could achieve on a stand-alone basis. The joint dispatch function will employ the same methodologies as the security-constrained economic dispatch function each company performs pre-merger. The post-merger process will simply integrate both companies' generation resources into the dispatch process. Tr. pp. 134-135.

According to witness Weintraub, in general, the joint dispatcher will not distinguish between the utilities' resources in determining how best to serve the combined loads of DEC and PEC. The joint dispatcher will have to consider various factors that might constrain the

selection of power supply resources, such as contractual “must-run” obligations for certain resources. Within such parameters, however, the joint dispatcher will treat the resources of both utilities as available to serve the load of both DEC and PEC. To the extent that this results in one utility over-generating (i.e., producing more energy than its load) and the other utility under-generating, the imbalance will be handled through a dynamic schedule between the parties’ balancing authority areas. Tr. p. 136.

Witness Weintraub testified that each utility will bear the costs associated with its own power supply resources, as defined under the JDA. For example, DEC and PEC will incur the fuel and O&M costs associated with their own generating facilities. Similarly, each utility will be responsible for the costs it incurs under its own power purchase contracts. After the fact, it will be determined which utility (over-generating utility) provided energy to the other, how much it supplied to the other utility (under-generating utility) in a given hour, and the amount of the savings. The under-generating utility will compensate the over-generating utility at cost for all of its expenses for providing the energy. In order to prevent one utility from unfairly shifting costs to the other and to ensure a reasonable sharing of the savings generated by the joint dispatch, an after-the-fact process will be used to allocate costs and benefits between the utilities. Tr. pp. 136-137.

Under the after-the-fact allocation process for each hour, the joint dispatcher allocates energy to three types of transactions that occurred during the hour: 1) New Non-Native Load Sales; 2) Existing Non-Native Load Sales<sup>6</sup>; and 3) Native Load Sales. The energy allocation process is done in descending order of energy cost (other than energy from “must-run” units)

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<sup>6</sup> As explained more thoroughly below, the FERC in its June 8, 2012 order approving the JDA required the elimination of the distinction between New and Existing Non-Native Load sales.

and identifies which power supply resources will be deemed to have served each class of transaction. Once the energy allocation process is complete, the joint dispatcher applies cost allocation provisions contained in the JDA to achieve a reasonable allocation of the costs and benefits of the joint dispatch. Tr. pp. 137-138.

The after-the-fact allocation process determines for each hour the costs each utility would have incurred if its resources had been dispatched on a stand-alone basis, without regard to any Non-Native Load sales opportunities. The difference between the joint dispatch costs and the stand-alone costs represents the cost savings achieved by joint dispatch. These savings then are allocated between PEC and DEC based on each company's share of energy generated in each hour. Tr. p. 139.

Under the joint dispatch process, the energy cost attributable to each utility's native load will be the costs actually incurred by the utility for energy allocated to native load service, adjusted by the cost allocation payments calculated by the joint dispatcher, which will be treated as payments for energy transfers between the utilities. Thus, the energy cost ultimately incurred by each utility to serve its native load will be equal to the stand-alone costs it would have incurred, but for the joint dispatch arrangement, less the utility's share of the joint dispatch savings. That will be the amount that each utility passes through its retail fuel clause and native load wholesale contracts. This process will result in an annual flow through of the joint dispatch savings for both retail and wholesale customers. Tr. p. 140.

The Applicants' witness, Dr. Kalt, explained that the joint dispatch of DEC's and PEC's generation resources under the JDA is expected to reduce the combined company's fuel and related dispatch costs by approximately \$364 million in the first five years after the Merger is

completed (2012-2016). These savings come from the use of the combined system's lowest-cost available generation to meet total customer demand. Dr. Kalt testified that, in performing the joint dispatch savings study, he relied on a commonly used security-constrained dispatch production cost model to run optimized least-cost production for the utilities' individual BAAs on a stand-alone basis. He then ran the same model assuming a combined "joint dispatch" across the BAAs, holding constant assumptions about load, fuel prices, existing contracts, etc. A net reduction in the total production costs required to serve system loads represents the estimated savings attributable to the joint dispatch. Tr. pp. 172-173.

Dr. Kalt stated that the estimated cost savings of jointly dispatching the DEC and PEC generation fleets are driven largely by optimizing dispatch so as to minimize fuel costs. This optimization results in lower fuel costs because the joint dispatch creates a larger, more flexible pool of operating assets to be drawn upon when making overall generation dispatch decisions. Joint dispatch enhances the ability to commit and substitute available capacity at a less costly generating unit in one BAA for a more costly unit that otherwise would be required to meet load in another BAA absent the joint dispatch. Tr. pp. 172-173.

Dr. Kalt explained that the savings will vary in magnitude from period to period. Using base case assumptions, he estimated the savings per year to be:

Base Case Savings (\$mm)					
<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
\$38	\$49	\$64	\$97	\$116	\$364

Tr. p. 173.

Dr. Kalt testified that the estimated benefits will vary if the underlying input assumptions used in the dispatch model are changed. To address this issue, he examined the effect on calculated benefits of changing two important modeling assumptions – fuel prices and load growth. By using a low and high range for both variables, he determined that the estimated benefits from joint dispatch range from \$249 million with low load growth (\$115 million less than the base case) to \$629 million with high fuel prices (\$265 million more than the base case). He noted that even the relatively smaller estimated potential benefits associated with an extreme low-load growth case still produce positive savings. Further, he considers the estimated joint dispatch cost savings to be a conservative estimate because the dispatch model does not capture additional sources of benefits associated with joint dispatch that offer real cost savings to the merging parties, as well as ancillary benefits such as enhanced economic activity. Specifically, he stated that the model does not (and cannot) capture the ability of joint dispatch to take advantage of daily fuel and electricity price volatility or potential benefits that can arise for capturing savings within a given hour, nor can the model capture the extent to which future joint planning could further reduce the costs of the merged companies. Finally, the ancillary benefits to the local economy resulting from lower electricity prices were not analyzed. Tr. pp. 174-175.

ORS witness, Jonathan Falk, agreed that the JDA should produce significant savings. However, he raised three issues: (1) that hourly joint dispatch ought to be feasible without a merger; (2) savings in the aggregate do not necessarily mean savings to each individual service territory; and (3) the JDA only allocates operating cost savings leaving open the possibility of cross-subsidization of capital costs on a going-forward basis. Witness Falk suggested that DEC and PEC could realize fuel savings through the implementation of some form of joint dispatch



without a merger. He indicated that these savings could be realized by PEC and DEC forming a tight power pool which is nothing more than a JDA without any merging of ownership. However, DEC and PEC witness Dr. Kalt explained that DEC and PEC could not achieve the same level of savings as estimated under their JDA if they operated as unaffiliated participants in a tight power pool arrangement. This is because it is not possible for two unaffiliated parties to engage in the complex, day-to-day real time moment-to-moment decisions necessary to implement the operational integration required to realize such savings. Dr. Kalt also observed that tight power pools may result in increased expenses and may impact the jurisdictional authority of the Commission.

Regarding the issues of the allocation of savings and the possibility of cross-subsidization, witness Falk acknowledged that, until the system is up and running, it is virtually impossible to forecast the importance of these issues. In order to allow PEC, DEC, ORS, the Intervenors, and the Commission to evaluate the materiality of these concerns and measure the benefits of the JDA, he recommended the Commission approve the JDA on a one year trial basis. Tr. pp. 238-241. During cross-examination by Mr. Tiencken, witness Falk testified that the Central Electric Power Cooperative and the Electric Cooperatives of South Carolina, Inc., support a one year trial period. Tr. p. 258.

In addition to the savings to be realized from joint dispatch, PEC and DEC witness Weintraub testified that the significant coordination between PEC and DEC will also create savings through the joint purchase of fuel and fuel transportation and the sharing and implementation of best practices for fuel procurement and use. Witness Weintraub sponsored Exhibit No. 5 to the Application, which is a study performed by Booz & Company (“Booz”) for

the Applicants, that estimates merger savings for the fuel procurement activities of the combined company. Witness Weintraub explained that Booz utilized specific information from DEC and PEC and Booz's own experiences with previous utility mergers to determine the forecasted fuel savings following the Merger. Tr. p. 140.

Witness Weintraub testified that both companies need natural gas, coal, and the transportation services required to deliver these fuels. With regard to coal transportation, witness Weintraub explained that, by aligning various transportation contracts and taking advantage of opportunities to maximize the economies of scale for the transportation of the combined company's coal requirements, the combined company will reduce its coal transportation costs. The transportation savings opportunity for the new company is based on aligning the lowest rates across common transportation contracts and carriers. Tr. p. 141.

Turning to the procurement of coal, witness Weintraub testified that the annual coal burn of the combined company will range from 23 to 28 million tons over the next five years. By optimizing a combined fuel sourcing plan with greater scope across common coal suppliers, the combined company will reduce overall coal procurement costs. The combined company's purchasing requirements will enhance its position as a leading buyer of coal and provide increased purchasing power in the marketplace, which will benefit customers through lower costs. Tr. p. 141.

With regard to the transportation of natural gas, witness Weintraub stated that, with the addition of interstate natural gas pipeline agreements by both DEC and PEC to support new and existing natural gas generation in the Carolinas, the combined company will utilize common natural gas transportation paths and complementary logistics for the combined natural gas

generation fleet. By maximizing the utilization of the combined portfolio of interstate natural gas pipeline agreements, cost savings will be achieved through short-term and potential long-term capacity releases into the market. In addition, fuel savings will be achieved by the avoidance of additional fixed pipeline costs by utilizing non-firm interstate pipeline transactions (backhaul and pipeline segmentation) to serve the natural gas requirements of the combined company. Tr. p. 143.

Witness Weintraub explained that the combined company should be able to achieve substantial fuel savings by the sharing of best practices for coal blending at the combined company's coal power plants. Over the past five years, PEC has invested more than \$60 million in its scrubbed coal units to improve the fuel flexibility of these units. These investments have included improvements to the coal-fired boilers, as well as the balance-of-plant components that have expanded the types of coal that can be reliably burned at these PEC coal units. The expansion of coal types that can be burned at the PEC scrubbed units has created competition among different coal basins, resulting in overall lower fuel procurement costs. Some of the investments have been for coal blending infrastructure that has increased blending capabilities to achieve optimal quality blends and procurement economics as well as the blending of cheaper fuels during off-peak hours. The integration of these best practices within the combined company will reduce the fuel costs of the combined company. Tr. pp. 141-142.

Turning to other savings opportunities, witness Weintraub testified that both DEC and PEC utilize common suppliers and transportation providers for limestone. By leveraging the increased limestone volume for the combined company, DEC and PEC expect to lower the delivered reagent costs of the combined company by reducing both the commodity costs and the

transportation costs for limestone. In addition to limestone costs, the combined company will have reagent costs for the procurement of ammonia. The combined company intends to leverage its increased purchasing power by consolidating its ammonia volume to achieve more competitive commodity pricing and transportation pricing than could be achieved by stand-alone companies. Tr. pp. 142-143.

Another area of savings noted by witness Weintraub involves combining the natural gas trading and scheduling functions for DEC and PEC. The combined company will eliminate the need for DEC to establish a natural gas trading desk and allow it to avoid two related positions that had been anticipated for meeting the needs of DEC's gas-fired generation fleet. Tr. pp. 143-144.

The Application explains that the Booz fuel savings study (Exhibit No. 5) quantifies these various savings opportunities as follows:

- the leveraging of each entity's expertise in coal transportation services and coal procurement is estimated to result in a combined savings of \$115 million over the five-year period 2012-2016;
- savings of \$183.9 million over this same five-year period are expected to be created through the application of coal blending practices to DEC's coal use, similar to PEC's current practices; and
- coordinating the use of PEC's and DEC's interstate natural gas pipeline capacity to the greatest extent allowed, reagent procurement efficiencies, and elimination of the need for DEC to establish a natural gas trading

desk, are estimated to produce an additional \$31.8 million of fuel savings,  
for a total of \$330.7 million over five years.

Combined with the joint dispatch fuel savings results, gross total fuel savings are estimated to be \$694.7 million over five years.

Witness Weintraub stated that the joint dispatch and fuel cost savings will automatically flow through to the utilities' retail customers through their respective fuel clause proceedings. He also explained that, upon the closing of the Merger, both PEC and DEC will file rate decrements to pass through the forecasted fuel savings for 2012. Tr. pp. 133, 140. The rider will be designed to provide PEC's and DEC's retail customers the forecasted savings to be realized from the joint dispatch of their systems as well as other fuel cost savings during calendar year 2012. In each of DEC's and PEC's fuel cost proceedings in the five years after Merger close, they will incorporate the forecasted savings from the joint dispatch of their systems as well as other fuel costs savings for each of those years into the calculation of their respective fuel factors. They will also calculate a true-up of the forecasted amounts for the previous year to the actually experienced savings.

At the hearing, PEC and DEC guaranteed that their retail and wholesale customers would receive their allocable shares of \$650 million in total system fuel and fuel-related cost savings over five years. At the close of the fifth year, if actually achieved savings passed through to retail customers in DEC's and PEC's South Carolina fuel cases do not total each company's allocable portion of South Carolina's pro rata share of the \$650 million in guaranteed savings, then DEC and PEC will flow through their respective fuel riders in their next cases their allocable shares of the remaining obligation. In the event the actual savings

exceed the guarantee, those additional savings will also be flowed through to DEC's and PEC's customers.

In the Additional Direct Testimony of witness Weintraub filed on June 4, 2012, pursuant to the Commission's Order No. 2012-473, Mr. Weintraub addressed the salient elements of a Supplemental Agreement and Stipulation of Settlement (Supplemental Agreement) entered into by DEC, PEC, and the NCUC Public Staff on May 8, 2012. This Supplemental Agreement clarifies and modifies an earlier Agreement and Stipulation of Settlement entered into by DEC, PEC and the NCUC Public Staff on September 2, 2011. The Supplemental Agreement clarifies certain portions of the JDA, creates additional savings for DEC's and PEC's customers, and addresses certain aspects of the \$650 million fuel savings guarantee during the first five years following the Merger.

The first clarification concerns how off-system purchases and sales are to be treated in determining savings realized by PEC and DEC from the joint dispatch of their generation facilities. The parties agreed that, in order to properly account for the benefits of joint dispatch for purposes of calculating the JDA savings portion of the \$650 million fuel savings guarantee, off-system sales and purchases will be excluded from the calculation (in both the joint dispatch generation stack and the stand-alone generation stacks). Actual savings that result from purchases and the displacement of higher cost generation that results from such purchases will flow through DEC's and PEC's annual fuel charge adjustment proceedings in the same manner such lower costs/savings have been treated pre-merger.

The second clarification concerns the increased consumption of reagents by DEC resulting from its burning of non-traditional coals due to greater use of coal blending. Fuel

blending generally refers to the exercise of fuel flexibility in electricity generation and involves the burning of coals with higher sulfur and ash contents. Such blending will result in the consumption of greater amounts of reagents than would be the case if the higher sulfur and ash content coals were not burned. The Supplemental Agreement clarifies that the calculation of the \$650 million fuel savings guarantee will not be reduced by the increased reagent costs resulting from the increased consumption of reagents associated with fuel blending. The recovery of these increased reagent costs, if otherwise reasonable and prudently incurred, will be allowed in DEC's annual fuel charge proceedings.

The final clarification relates to how savings realized by DEC from greater use of coal blending following the Merger are to be calculated for purposes of the \$650 million fuel savings guarantee.

Mr. Weintraub further explained that the Supplemental Agreement modifies DEC's and PEC's earlier agreement with the NCUC Public Staff that DEC's and PEC's North Carolina retail customers would receive their allocable share of \$650 million of total system fuel and fuel-related cost savings over the first five years following the close of the Merger. He stated that the reduction in natural gas prices since the beginning of 2012 has significantly impacted PEC's and DEC's opportunity to achieve fuel savings from coal blending. Exhibit No. 5 to the Applicants' Merger Application indicates that savings of \$183.9 million during the first five years following the close of the Merger are expected to be achieved through coal blending. Mr. Weintraub testified that the dramatic reduction in natural gas prices since the beginning of 2012 has materially reduced the amount of coal being consumed by PEC and DEC. Current forecasts of natural gas prices do not indicate any material change in the relative prices of coal and

natural gas in the near term. Therefore, over the next several years, PEC's and DEC's coal consumption is expected to remain at the current relatively low levels. This reduced use of coal materially impacts DEC's forecasted ability to achieve the \$183.9 million in coal blending savings during the first five years after the Merger. As a result, the NCUC Public Staff and the Applicants agreed that, if at the end of the five-year period, (1) DEC and PEC have not achieved all of the \$650 million in guaranteed savings in spite of their best efforts; and (2) the decline in natural gas prices has resulted in fewer tons of coal having been delivered to the three DEC generating plants designated for coal blending in Exhibit 5 and therefore impaired DEC's ability to achieve the forecasted coal blending savings, then the five-year period will be extended by 18 months.

Mr. Weintraub emphasized in his testimony that PEC and DEC are still committed to providing both their South Carolina and North Carolina retail customers their allocable shares of the guaranteed \$650 million in fuel savings during the first five years following the closing of the Merger. However, he explained that, at the time of the hearing before this Commission in December of 2011, no one foresaw the dramatic decrease in natural gas prices that has occurred in 2012 or that natural gas prices would be forecasted to remain at very low levels for the next several years. This reduction in natural gas prices has resulted in natural gas fired generation being less expensive than coal fired generation. If this situation persists, then following the Merger DEC will not be burning enough coal at its Marshall, Belews Creek, and Allen plants to achieve the forecasted savings of approximately \$184 million. Thus, Mr. Weintraub testified that DEC and PEC need an additional 18 months to achieve the \$650 million in fuel savings if DEC is unable to burn as much coal as was originally forecasted. He emphasized that DEC's



and PEC's South Carolina customers are realizing and will realize fuel savings, the savings will just be created by the changes in the fuel markets rather than from coal blending. Either way DEC's and PEC's customers enjoy significant savings, they will just be achieved in a manner not originally contemplated. Of course, such natural gas fired generation savings will not be counted toward the achievement of the \$650 million guarantee in fuel savings.

Another modification addressed by Mr. Weintraub in his Additional Direct Testimony relates to the recovery of capital costs associated with achieving merger savings. In recognition of the delay in the expected closing of the Merger from January 1, 2012, to the June-July 2012 time frame, the Applicants and the NCUC Public Staff agreed that their September 2, 2011, Agreement and Stipulation of Settlement should be revised to allow PEC and DEC to seek recovery of any and all capital costs incurred to generate merger savings provided such costs are incurred within three years of the closing of the Merger, except for capital costs to achieve fuel blending savings incurred by DEC. The Supplemental Agreement provides that there should not be any time limitation regarding DEC seeking recovery of costs to achieve coal blending savings. Additionally, the standard for recovery was changed to allow PEC and DEC to recover all capital costs incurred to generate merger savings (including fuel blending savings) in accordance with normal ratemaking practices.

Mr. Weintraub explained that, in consideration for the NCUC Public Staff agreeing to these clarifications and modifications in the Supplemental Agreement and Stipulation of Settlement, PEC and DEC agreed to waive their right to seek recovery of employee severance costs. These costs are forecasted to be \$226,000,000 on a system basis. Mr. Weintraub stated that the ORS, which is a party to the North Carolina proceeding, has filed a letter with the

NCUC generally supporting the Supplemental Agreement and Stipulation of Settlement, including the 18-month extension.

Mr. Weintraub also addressed certain commitments DEC and PEC made to the ORS in settlement of the ORS' issues in the North Carolina Merger proceeding. Mr. Weintraub states that these commitments create additional value for DEC's and PEC's South Carolina customers that more than offset the 18-month extension to achieve the guaranteed \$650 million in fuel savings. He noted that DEC and PEC have agreed to make annual community support and charitable contributions in South Carolina for four years following the close of the Merger. The annual contributions will be based on DEC's and PEC's average contributions over the time period 2006-2010. The annual amount for DEC is \$1,866,862, and for PEC the annual amount is \$788,000 for an annual total of \$2,654,862. In addition, DEC and PEC have committed to make a contribution in the amount of \$3.75 million in the first year following the close of the Merger to support workforce development and low income energy assistance in DEC's and PEC's South Carolina service territories. The contribution will be allocated in proportion to the number of South Carolina customers served by each utility. Finally, Mr. Weintraub stated that DEC and PEC have committed not to seek recovery of the employee severance costs they will incur in reducing their workforces to achieve merger savings from their South Carolina retail customers. These costs are forecasted to be \$44,000,000 on a South Carolina retail basis.

The Commission finds that the changed circumstances described by Mr. Weintraub, along with the additional value resulting from the commitments made by DEC and PEC to the ORS, justify the Commission allowing DEC and PEC an additional 18 months beyond the first

five years following the close of the Merger to provide their South Carolina retail customers their allocable share of the guaranteed \$650 million in fuel savings.

As noted earlier, on June 8, 2012, FERC approved the JDA, provided that DEC and PEC agreed to two revisions. The required revisions were the deletion of Sections 3.2(c)(ii)-(iv) and the elimination of the distinction between existing non-native load customers and new non-native load customers. On June 12, 2012, DEC and PEC notified the Commission that they would agree to these revisions and submitted a revised conforming JDA. DEC and PEC also indicated that they intended to submit the revised JDA to FERC no later than 10 days after the close of the Merger. On June 13, 2012, DEC and PEC filed the Further Supplemental Testimony of Sasha Weintraub explaining the JDA revisions.

In that testimony, Mr. Weintraub explained that none of the revisions alter DEC's and PEC's ability to achieve the forecasted fuel savings or otherwise impair any of the benefits of the JDA to South Carolina customers. He stated that Sections 3.2(c)(ii)-(iv) of the JDA contain language that DEC and PEC were required to insert into affiliate agreements pursuant to their North Carolina regulatory conditions. The language of Sections 3.2(c)(ii)-(iv) is substantially similar to language in those regulatory conditions. Therefore, the deletion of this language from the JDA does not relieve DEC and PEC from these obligations. In fact, Mr. Weintraub noted that FERC stated in the paragraph discussing the deletion of Sections 3.2(c)(ii)-(iv) that "we offer no view on the North Carolina Commission's authority to impose or apply such requirements in its proceedings." (FERC JDA Order page 13, paragraph 37). In addition, Mr. Weintraub testified that on June 13, 2012, the NCUC Public Staff filed proposed additional

regulatory conditions in the NCUC merger docket to address the deletion of this language from the JDA. DEC and PEC do not oppose these revisions.

Turning to FERC's second revision, Mr. Weintraub explained that FERC required DEC and PEC to eliminate the distinction in the JDA between sales to existing non-native load customers and sales to new non-native load customers. He further explained that merging existing non-native load sales and new non-native load sales into one class for purposes of the JDA has no impact on the \$650 million savings guarantee, because this revision only deals with non-native load transactions and does not impact native load. Furthermore, he stated that the class of existing non-native load sales is small, only two contracts, and that, when those two contracts expire, the class of "existing non-native load sales" will disappear.

Finally, Mr. Weintraub testified that merging these two types of sales does not change the total costs allocated to non-native load sales for purposes of the JDA. The resources allocated to native load will only be those that remain after the highest cost resources have been allocated to non-native load sales. The only difference will be that, instead of first allocating the least expensive of these higher cost resources to "existing" non-native load sales and the remainder to "new" non-native load sales, the most expensive resources will be allocated to non-native load sales as a whole. Therefore, this change will not affect the allocation of costs to native load.

D. OTHER ISSUES

The City of Orangeburg opposed approval of the JDA, not on the grounds that it will not provide substantial savings to PEC's and DEC's South Carolina customers, but rather because, Orangeburg argues, the Commission does not have jurisdiction to approve the JDA.

As explained earlier in this order, the JDA involves the transfer of operational control of PEC's generating assets to DEC. These PEC generating assets are used and useful and are included in PEC's rate base. Thus, pursuant to S.C. Code Ann. § 58-27-1300, which is set forth in its entirety below, Commission approval is clearly required prior to their transfer to DEC.

S.C. Code Ann. § 58-27-1300 (Supp. 2011) states:

No electrical utility, without the approval of the commission and compliance with all other existing requirements of the laws of the State in relation thereto, may sell, assign, transfer, lease, consolidate, or merge its utility property, powers, franchises, or privileges, or any of them, ....without prior approval of the commission..... For purposes of this section, "utility property" shall include property used and useful to provide customers with electric service and which has been properly included in the electric utility's rate base, including construction work in progress or property held to serve future customers.

Furthermore, elimination of certain language in the JDA that the City finds offensive will not provide Orangeburg the relief it seeks. The Applicants' witnesses Rogers and Johnson explained in their rebuttal testimony that Orangeburg's basic concern with the JDA relates to a decision by the NCUC regarding the allocation of electric utility costs between retail and wholesale customers for the purposes of establishing North Carolina retail electric rates. Orangeburg believes the North Carolina cost allocation methodology harms Orangeburg's opportunities to purchase electricity in the wholesale market at favorable rates, thus it opposes this cost allocation methodology. The proposed JDA is consistent with the existing North Carolina retail/wholesale cost allocation methodology. Orangeburg has challenged this cost allocation process before the NCUC and the North Carolina courts and was unsuccessful in both forums. A rejection of the JDA by this Commission will not alter these decisions or the NCUC's use of this cost allocation methodology. Tr. p. 35.

### **III. FINDINGS OF FACT AND CONCLUSIONS OF LAW**

After thorough consideration of the entire record, including the testimony and all exhibits, and the applicable law, the Commission makes the following findings of fact and conclusions of law:

1. DEC is an electrical utility as defined by S.C. Code Ann. § 58-27-10(7) authorized to generate, transmit and distribute electric power in its service territory in South Carolina.

2. PEC is an electrical utility as defined by S.C. Code Ann. § 58-27-10(7) authorized to generate, transmit and distribute electric power in its service territory in South Carolina.

3. Pursuant to S.C. Code Ann. § 58-27-140 (Supp. 2011), the Commission is vested with general powers to supervise and regulate the service of electrical utilities and pursuant to S.C. Code Ann. § 58-27-1300, the Commission must approve the transfer of any utility property, including the transfer of operational control of PEC's generating assets as contemplated by the JDA.

4. We find that the JDA is an interchange or interconnection agreement as contemplated by S.C. Code Ann. § 58-27-865(E) and is not intended to act as a system integration agreement and that DEC and PEC will retain their obligations to serve their own native load customers, to fulfill their own contractual obligations, and to operate their own transmission systems and balancing authority areas. Further, all rates and services of PEC and DEC continue to be subject to the same oversight of this Commission as was the case before the merger of Duke and Progress.

5. We find that the joint dispatch process will allow PEC and DEC to serve their retail and wholesale native load customers more efficiently and economically than they can on a stand-alone basis.

6. We conclude that the savings to be realized by PEC and DEC from the JDA are real and substantial. No party to this proceeding presented any evidence that the JDA will not produce substantial savings for PEC's and DEC's South Carolina customers. The Commission finds that the revisions required by FERC do not diminish the benefits of the JDA to DEC's and PEC's South Carolina retail customers.

7. This Commission is mindful of the evolving nature of DEC's and PEC's planning for use of existing and future generation resources. Until the two companies are able to construct IRPs that benefit from full knowledge of the other company's needs and resources, it is uncertain how their combined future decision-making will impact their ratepayers. In addition, because of the sheer size of their operations, it is also uncertain how ripple effects might impact other utilities, other South Carolina ratepayers, and our state's economy.

8. To address any issues or risks associated with the JDA and the evolving nature of the Applicants' planning, we find that the JDA should be approved on a one (1) year trial basis effective with the closing of the Merger. The one (1) year trial basis has been recommended by ORS, supported by the Electric Cooperatives and Nucor, and agreed to by the Applicants.

9. We find that the Commission does have jurisdiction to approve the JDA pursuant to S.C. Code Ann. § 58-27-1300 (Supp. 2011).

10. During the hearing the Applicants committed to a "most favored nations" treatment for South Carolina. This commitment ensures that PEC's and DEC's South Carolina

customers receive the same benefits, on a pro rata basis, as those provided to PEC's and DEC's North Carolina retail customers as a result of the NCUC's Order ruling upon Duke's and Progress' Merger Application, including the adoption of the revised Regulatory Conditions and Code of Conduct to the extent allowable by South Carolina law.

11. DEC and PEC have guaranteed that DEC's and PEC's South Carolina retail customers will receive their allocable share of \$650 million of total system fuel and fuel-related cost savings over five years upon close of the Merger. DEC and PEC shall have 18 additional months to achieve the \$650 million in system fuel and fuel-related cost savings if, at the end of the five-year period, (1) DEC and PEC have not achieved all of the \$650 million in guaranteed savings in spite of their best efforts; and (2) the decline in natural gas prices has resulted in fewer tons of coal having been delivered to the three DEC generating plants designated for coal blending in Exhibit 5. At the end of that period, if the savings passed through to retail customers in DEC's and PEC's South Carolina fuel cases do not total each company's allocable portion of South Carolina's pro rata share of the \$650 million in guaranteed savings, then in DEC's and PEC's subsequent fuel cases each will flow through their respective fuel riders their allocable share of the remaining obligation. In the event the actual savings exceed the guarantee, those additional savings will also be flowed through to DEC's and PEC's customers.

12. DEC and PEC have also made the following commitments to the ORS as a condition of approval of the JDA: DEC and PEC shall make annual community support and charitable contributions in South Carolina for four years following the close of the Merger. The annual contributions will be based on the DEC's and PEC's average contributions over the time period 2006-2010. The annual amount for DEC is \$1,866,862, and for PEC the annual amount



is \$788,000 for an annual total of \$2,654,862. DEC and PEC shall make a contribution in the amount of \$3.75 million in the first year following the close of the Merger to support workforce development and low income energy assistance in DEC's and PEC's South Carolina service territories. The contribution will be allocated in proportion to the number of South Carolina customers served by each utility. DEC and PEC shall not seek recovery of the employee severance costs they will incur in reducing their workforces to achieve merger savings. These costs are forecasted to be \$226,000,000 on a system basis and \$44,000,000 on a South Carolina retail basis.

IT IS THEREFORE ORDERED THAT:

1. The Joint Dispatch Agreement, as approved by FERC, is approved by this Commission on a one year trial basis effective with the closing of the Merger, and all commitments made by the Applicants as referenced herein are accepted as a condition of such approval;

2. As a condition of this Commission's approval of the Joint Dispatch Agreement, PEC and DEC guarantee this Commission and PEC's and DEC's retail customers pro rata benefits equivalent to those approved by the NCUC in its Order ruling upon Duke Energy Corporation's and Progress Energy, Inc.'s Merger Application, including, but not limited to the protections of the revised Regulatory Conditions and Code of Conduct, to the extent allowable by South Carolina law;

3. As a condition of this Commission's approval of the Joint Dispatch Agreement, PEC and DEC guarantee this Commission and their retail and wholesale customers that customers will receive their allocable share of \$650 million in total system fuel and fuel-related

cost savings over the first five years after close of the Merger. DEC and PEC, however, shall have 18 additional months to achieve and pass through South Carolina customers' allocable share of the \$650 million in system fuel and fuel-related cost savings if, at the end of the five-year period, (1) DEC and PEC have not achieved all of the \$650 million in guaranteed savings in spite of their best efforts; and (2) the decline in natural gas prices has resulted in fewer tons of coal having been delivered to the three DEC generating plants designated for coal blending in Exhibit 5. At the end of that period, if the savings passed through to retail customers in DEC's and PEC's South Carolina fuel cases do not total each company's allocable portion of South Carolina's pro rata share of the \$650 million in guaranteed savings, then in DEC's and PEC's subsequent fuel cases each will flow through their respective fuel riders their allocated share of the remaining obligation. In the event the actual savings exceed the guarantee, those additional savings will also be flowed through to DEC's and PEC's customers.

4. As a condition of our approval of the Joint Dispatch Agreement DEC and PEC shall: a) make annual community support and charitable contributions in South Carolina for four years following the close of the Merger. The annual contributions will be based on the DEC's and PEC's average contributions over the time period 2006-2010. The annual amount for DEC is \$1,866,862, and for PEC the annual amount is \$788,000 for an annual total of \$2,654,862; b) make a contribution in the amount of \$3.75 million in the first year following the close of the Merger to support workforce development and low income energy assistance in DEC's and PEC's South Carolina service territories. The contribution will be allocated in proportion to the number of South Carolina customers served by each utility; and c) DEC and PEC shall not seek recovery of the employee severance costs they will incur in reducing their

workforces to achieve merger savings. These costs are forecasted to be \$226,000,000 on a system basis and \$44,000,000 on a South Carolina retail basis.

5. DEC and PEC shall file electronically with the Commission decrement riders to their South Carolina retail rates within 30 days of the close of the Merger to pass through to their respective customers: a) their allocable shares of the \$650 million in system fuel and fuel-related cost savings; and b) the capacity cost allocated to the interim wholesale sales consistent with Appendices A and B to this Order.

6. In addition to the reports currently received by this Commission, DEC and PEC shall file with this Commission all reports required by the NCUC's Order on the Merger issued on June 29, 2012 (or which may be required by the NCUC in the future) as are relevant and appropriate under South Carolina law, *e.g.*, the reports listed in Appendix C to this Order. Further, copies of such reports should be provided to the ORS, as well as any other reports which may be requested by the ORS. This Commission retains jurisdiction to determine the appropriateness of the list of reports to be submitted to the Commission.

7. DEC and PEC shall provide within 30 days of receipt of this Order the final versions of the Revised Code of Conduct, Regulatory Conditions, and the final version of the Joint Dispatch Agreement and final version of the Mitigation Plan filed with FERC.

8. The Settlement Agreement between DEC and PEC and the Environmental Intervenors is approved.


9. By May 2, 2013, interested Parties in the present docket shall submit proposed procedures, including due dates for filings, for the one year review of the JDA, to be opened

under a new docket. Those Parties shall include procedures for reporting on the promised fuel and fuel-related cost savings.

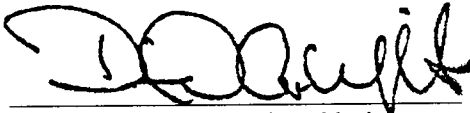
10. By July 2, 2013, DEC and PEC shall certify compliance with the commitments regarding workforce development, low income energy assistance, annual community support and charitable contributions.

11. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
\_\_\_\_\_  
John E. Howard, Chairman

ATTEST:

  
\_\_\_\_\_  
David A. Wright, Vice Chairman  
(SEAL)



December 13, 2011

The Honorable Jocelyn G. Boyd  
Chief Clerk / Administrator  
Public Service Commission of South Carolina  
101 Executive Center Drive  
Columbia, SC 29210

RE: SCPSC Docket No. 2011-158-E

Dear Mrs. Boyd:

The purpose of this letter is to memorialize the stipulation and commitment made by Progress Energy Carolinas, Inc. ("PEC") and Duke Energy Carolinas, LLC ("DEC") during the hearing in this docket held December 12, 2011.

As a condition for Commission approval of the proposed Joint Dispatch Agreement ("JDA") between PEC and DEC, PEC and DEC will provide the Commission a "most favored nations" commitment and will also agree to the ORS proposal for approval of the Joint Dispatch Agreement on a one year trial basis. The "most favored nations" commitment guarantees this Commission and PEC's and DEC's retail customers pro rata benefits equivalent to those approved by the North Carolina Utilities Commission in its order ruling upon Duke Energy Corporation's and Progress Energy Carolinas, Inc.'s merger application.

Very truly yours,

A handwritten signature in black ink, appearing to read "Len S. Anthony", written over a horizontal line.

Len S. Anthony  
General Counsel  
Progress Energy Carolinas, Inc.

LSA:mhm

STAREG2070



May 16, 2012

**VIA ELECTRONIC FILING**

Jocelyn G. Boyd, Esquire  
Chief Clerk & Administrator  
Public Service Commission of South Carolina  
101 Executive Center Drive, Suite 100  
Columbia, South Carolina 29210

RE: Application Regarding the Acquisition of Progress Energy Incorporated by Duke Energy Corporation and Merger of Progress Energy Carolinas, Incorporated and Duke Energy Carolinas, LLC - **Docket No. 2011-158-E** (See also Docket No. 2011-68-E)

Dear Mrs. Boyd:

The purpose of this letter is to advise the Public Service Commission of South Carolina (the "Commission") of certain commitments Duke Energy Carolinas, LLC ("DEC") and Progress Energy Carolinas, Inc. ("PEC"), (collectively referred to in this letter as "the Utilities"), have made to the South Carolina Office of Regulatory Staff ("ORS") with regard to the Revised Market Power Mitigation Proposal ("Revised Mitigation Proposal") filed with the Federal Energy Regulatory Commission ("FERC") by Progress Energy, Inc. ("Progress") and Duke Energy Corporation ("Duke") on March 26, 2012. The Revised Market Power Mitigation Proposal was filed by Duke and Progress pursuant to an order issued by the FERC on December 14, 2011, which rejected a previous mitigation proposal filed by Duke and Progress.

The Revised Mitigation Proposal has two elements: 1) an interim mitigation mechanism that involves the sale of capacity ("Mitigation Capacity") and energy to new third-party wholesale market participants ("Interim Mitigation Sales"); and 2) a permanent mitigation proposal that involves the construction of new transmission facilities and a commitment to run certain generating units in a specified manner ("Permanent Transmission Mitigation"). As proposed, the Interim Mitigation Sales will terminate once all of the new proposed transmission facilities have been constructed and placed into service. These two (2) market power mitigation mechanisms create state retail cost recovery issues. To address these issues the Utilities have made the following commitments to the ORS to hold their South Carolina retail ratepayers harmless:

A. Interim Mitigation Sales

1. The costs of the Mitigation Capacity will be allocated to the Utilities' wholesale jurisdiction. These costs shall be calculated based upon the revenue requirement associated with a utility-specific proxy for the capacity costs of the generating facilities expected to be on the margin during the months and hours the Interim Mitigation Sales will be made, which are assumed to be between July 1, 2012 through May 31, 2015.
2. DEC and PEC will each develop a decrement rider to their respective South Carolina retail rates that reflects the Mitigation Capacity costs described in subsection (1) above, calculated as follows:
  - a) The Mitigation Capacity MWs under contract for each period shall be increased to reflect reserve margins contained in the Utilities' 2011 filed Integrated Resource Plans.
  - b) The Mitigation Capacity MWs, including the associated reserve margins, shall be multiplied by the number of hours that the capacity is contracted for and the hourly capacity cost per MW based upon the agreed upon utility-specific proxy.
  - c) These capacity costs shall include a rate of return on production plant, step-up transformer facilities, general plant, and associated rate base items. Additional costs to be included are fixed O&M (which include an appropriate allocation of Administrative and General ("A&G") costs, depreciation expense, and general taxes. The total system costs of Mitigation Capacity to be allocated away from retail are \$43,458,315 for DEC and \$21,194,759<sup>1</sup> for PEC.
  - d) Such capacity costs shall be allocated between and among jurisdictions using the production plant allocation methodology approved in DEC's and PEC's most recent general rate cases. For DEC and PEC, the current Commission-approved methodology is Summer CP. Use of these particular allocation methodologies shall not be considered as precedent in any future cases, including general rate cases.
  - e) The decrement shall be determined by dividing each utility's Mitigation Capacity total projected South Carolina retail capacity costs for July 1, 2012, through May 31, 2015, by each utility's projected South Carolina retail kilowatt-hour sales for the same period in accordance with Appendix A.

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<sup>1</sup> The DEC and PEC South Carolina retail allocable portion would be \$10,316,657 for DEC and \$2,283,121 for PEC.

3. The Utilities shall file such decrement riders for approval with the Commission and provide a copy to ORS within 30 days after the Merger closes. Upon approval by the Commission, the decrement riders shall be fixed and remain in effect and without any future true-ups until the date the Interim Mitigation Sales are terminated plus the number of days between when such sales began and the time the decrement riders became effective. Provided, however, that if a portion of the interim sales terminate, the riders shall be reduced in proportion to the terminated sales. Appropriate decrement riders will continue in effect until such time as the Utilities are relieved of their respective obligations to make the Interim Mitigation Sales.
4. Interim Mitigation Sales shall be treated as a separate category of New Non-Native Load Sales and shall be deemed to have been satisfied by the highest energy costs assigned to New Non-Native Load Sales.
5. The Utilities shall not seek to recover from their South Carolina retail customers any of the non-fuel variable operating and maintenance costs associated with the Interim Mitigation Sales.
6. The Utilities shall not seek to recover from their South Carolina retail customers any revenue shortfalls resulting from, or any costs associated with, the Interim Mitigation Sales, including but not limited to any negative capacity payments, any revenue deficiency resulting from energy revenues being less than the associated costs and any payment of liquidated damages.

**B. Permanent Transmission Mitigation**

DEC and PEC will not assign costs associated with Permanent Transmission Mitigation projects into their wholesale transmission rates until the later of the expiration of the five-year FERC hold harmless period or such time as the Utilities have received regulatory approval to assign those costs to their retail native loads, effective on the date they are first permitted to begin recovering those costs.

1. The Utilities shall not seek recovery in their respective South Carolina retail rates of any of the costs associated with the Permanent Transmission Mitigation projects except as follows:
  - a) The Utilities may request recovery of costs associated with a Permanent Transmission Mitigation project in their respective South Carolina retail rates upon the expiration of five (5) years following the close of the merger, and any such request shall include a showing that the requesting utility also intends to pursue recovery from its wholesale customers effective on the date it is permitted to begin recovery of such costs in its South Carolina retail rates.



- b) Any request by DEC or PEC to recover the costs associated with a Permanent Transmission Mitigation project in its South Carolina retail rates must be supported by evidence sufficient to show that, absent the merger and the resulting mitigation requirement, (i) the project is needed to provide adequate and reliable retail service, and (ii) at the time the request is made, the construction of the project and the incurrence of the associated costs would have been reasonable and prudent.
  - c) If the requisite showing has been made pursuant to (a) and (b) above, the Utilities may seek inclusion of only the net depreciated cost of the Permanent Transmission Mitigation projects at the time of the request, and shall not request any deferral of any costs associated with the projects for ratemaking purposes.
  - d) If subsequent to the inclusion of the costs associated with a Permanent Transmission Mitigation project in South Carolina retail rates, DEC or PEC is not successful in incorporating the correct jurisdictional share of those costs into the cost-based formula rate prescribed by its FERC approved Open Access Transmission Tariffs and, therefore, does not recover all of such costs from its wholesale or firm transmission-only customers, then the corresponding proportionate share of such costs that have been approved for inclusion in retail rates shall be removed and refunds made accordingly (e.g., if 20% of the costs allocated to wholesale are not recovered, then 20% of the portion allocated to retail shall be excluded and refunded).
2. Paragraph B.1 above does not apply to the Greenville-Kinston-DuPont transmission line project. PEC may seek to include the costs associated with this line in its South Carolina retail rates any time after the line is placed in service, in accordance with normal ratemaking practice requirements.
3. The Utilities shall not recover from their South Carolina retail ratepayers any costs associated with running their generating systems on a non-economic basis as a result of the FERC Permanent Transmission Mitigation commitment to run the Roxboro and Mayo units at full output when necessary to push back against AEP/PJM power flows into PEC in order to achieve improvement in firm import capability from PJM into PEC-East. PEC, through special operating procedures<sup>2</sup> maintained at its Energy Control Center ("ECC"), shall (a) document each instance in which any of the Roxboro and Mayo units operate out of merit dispatch order and (b) specify each instance during which the approved procedure for implementing the Permanent Transmission

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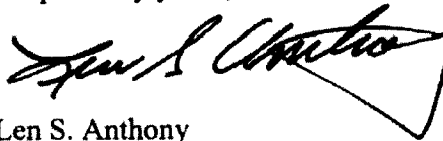
<sup>2</sup> The ECC will monitor the AEP Danville/East Danville transmission line that interconnects with PEC's system north of the Roxboro and Mayo plants, and, if line-overloading issues associated with power flows from PJM into PEC are found at a time that the Roxboro and Mayo units are not operating at full power output, the ECC will direct both the Roxboro and Mayo plants to increase their output to full power, per the special operating procedures for this type of situation.

Mitigation commitment was used. For each use of the procedure, the following information shall be included by PEC in its monthly fuel report:

- the date, exact times, and duration;
  - a detailed description of the order of dispatch under the joint dispatch agreement that would have occurred if the procedure had not been used;
  - the incremental difference in fuel, fuel-related, and variable O&M costs, on a joint dispatch basis; and
  - the effect on joint dispatch savings to be split between DEC and PEC.
- C. DEC and PEC re-affirm their commitment and guarantee contained in the Utilities' December 13, 2011 letter filed with the Commission in this same docket to provide their retail South Carolina customers pro rata benefits equivalent to those approved by the North Carolina Utilities Commission in its order ruling upon Duke's and Progress' merger application.
- D. The commitments described in this letter are contingent upon the FERC approving the Revised Mitigation Proposal in Docket No. EC11-60-004; the Joint Dispatch Agreement between DEC and PEC, re-filed with the FERC on March 26, 2012, in Docket Nos. ER12-1338-000, ER12-1347-000, and ER11-3306-000; and the Joint Open Access Transmission Tariff, as re-filed in Docket Nos. ER12-1343-000, ER12-1345-000, ER12-1346-000, and ER11-3307-000, all without material condition or change.

By copy of this letter we are serving the same on all parties of record. Should you have any questions, please do not hesitate to contact me.

Respectfully yours,



Len S. Anthony  
General Counsel  
Progress Energy Carolinas, Inc.

LSA:mhm

cc: Parties of Record

STAREG2536

**DUKE ENERGY CAROLINAS AND PROGRESS ENERGY CAROLINAS**

**Revenue Requirement of FERC Mitigation Capacity  
Summary of 35-Month SC Retail Decrement Rider**

**Effective for Service Rendered July 1, 2012 through May 31, 2015**

		<b>Duke Energy Carolinas</b>	<b>Progress Energy Carolinas</b>
SC Retail Mitigation Capacity Allocation	1/	(\$10,316,656)	(\$2,283,121)
Forecast SC Retail kWh Sales	2/	63,634,708,399	19,100,771,698
Decrement \$/kWh Sales		(\$0.000162)	(\$0.000120)
Billing Adj. - SC GRT and SCPSC Utility Assessment Fee		1.004536	1.003010
Proposed SC Retail Rider \$/kWh		(\$0.000163)	(\$0.00012)

**Footnotes:**

1/ Based on Stipulated Methodology and 2010 Cost of Service Study for DEC, 2011 Cost of Service Study for PEC

2/ Based on September 2011 IRP Filing

May 21, 2012

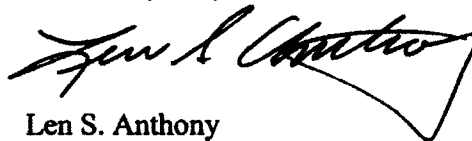
Mrs. Jocelyn G. Boyd  
Chief Clerk / Administrator  
Public Service Commission of South Carolina  
101 Executive Center Drive  
Columbia, SC 29210

Dear Mrs. Boyd:

The purpose of this letter is twofold. First, Progress Energy Carolinas, Inc. ("PEC") and Duke Energy Carolinas, LLC ("DEC") wish to affirm to the Commission that neither the Supplemental Agreement and Stipulation of Settlement entered into by Progress Energy, Inc., Duke Energy Corporation and the North Carolina Public Staff, filed with the North Carolina Utilities Commission on May 8, 2012, nor the commitments made by DEC and PEC to the Office of Regulatory Staff described in my letter of May 16, 2012, alter or affect the Joint Dispatch Agreement ("JDA"). The forecasted savings to be produced by joint dispatch have not decreased and the terms and conditions have not changed. The only relationship between the JDA and the Supplemental Agreement is the forecasted savings from joint dispatch are included in the projected \$650 million of total system savings. The provision of the Supplemental Agreement that allows DEC and PEC an additional 18 months to achieve the \$650 million in fuel savings is associated with the possibility that the utilities will not burn as much coal as was assumed in estimating the coal blending savings, not joint dispatch.

Secondly, PEC and DEC wish to clarify a statement contained in the commitment letter filed with the Public Service Commission on May 16, 2012 in Docket No. 2011-158-E. In Section A.1 of the letter, under the heading Interim Mitigation Sales, it states that "The costs of the Mitigation Capacity will be allocated to the Utilities' wholesale jurisdiction." This statement was deficient, standing alone, to accurately describe the wholesale allocation. The capacity costs in question will be allocated to the actual mitigation wholesale sales, not PEC's and DEC's wholesale jurisdiction in the aggregate. To the extent the revenues received by PEC and DEC from these sales are less than the allocated costs, PEC's and DEC's shareholders will absorb that loss.

Yours very truly,



Len S. Anthony  
General Counsel  
Progress Energy Carolinas, Inc.

LSA:mhm

STAREG2545

Progress Energy Service Company, LLC  
P.O. Box 1551  
Raleigh, NC 27602

Appendix B  
Docket No. 2011-158-E  
Order No. 2012-517  
July 11, 2012  
Page 7 of 7

**Selected Reports Required by the North Carolina Utilities  
Commission's Order Issued on June 29, 2012 on the Merger  
of Duke Energy Corporation and Progress Energy, Inc.**

1. Monthly reports of tracked fuel savings with monthly fuel reports.
2. FERC Form 1.
3. Integrated Resource Plans.
4. Notice of Filing or Contract for RTO Membership or Withdrawal.
5. Cost Allocation Manuals with respect to goods or services provided by DEC or PEC, etc.
6. Report of any business combination transaction savings.
7. Changes to Electric Cost of Service Manuals.
8. Reports of Duke Energy capital contributions to DEC and PEC.
9. Notice of affiliate bankruptcy.
10. Notice of merger, acquisition or other business combination of DEC or PEC impacting rates or services or those that are not expected to impact rates or services but are  $\geq$  \$1.5 billion.
11. Report of violations of Regulatory Conditions and Code of Conduct or Code of Conduct.
12. Request for waiver of aspects of Code of Conduct.